

Message Text

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SUBJECT: BUNDESTAG ADOPTS NEW FRG DEVELOPMENT AID

TAX LAW

REF: BONN 4092

1. ON NOVEMBER 14, 1974, THE BUNDESTAG ADOPTED THE "DEVELOPING COUNTRIES TAX LAW" WHICH ASSURES THE CONTINUANCE OF TAX INCENTIVES FOR PRIVATE DIRECT INVESTMENTS IN LDC'S. THE NEW LAW WILL REPLACE LEGISLATION WHICH EXPIRED ON DECEMBER 31, 1973 AND WILL BE APPLICABLE TO INVESTMENTS MADE FROM JANUARY 1, 1974 THROUGH DECEMBER 31, 1978. PASSAGE OF THE NEW LAW IN THE BUNDESRAT ON NOVEMBER 29 IS EXPECTED TO TAKE PLACE WITHOUT DIFFICULTY.

2. THE BILL PASSED BY THE BUNDESTAG FOLLOWED THE DRAFT LAW SUBMITTED BY THE FEDERAL GOVERNMENT IN ALL BUT ONE POINT: WHILE THE GOVERNMENT HAD PROPOSED THE ESTABLISHMENT OF TAX-FREE RESERVES (SEE REFTTEL) EQUAL TO 80 PERCENT OF THE AMOUNT OF INVESTMENT IN 27 LEAST DEVELOPED COUNTRIES, THE BUNDESTAG INCREASED THIS

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PERCENTAGE TO 100. BY THIS CHANGE, THE BUNDESTAG HOPES

TO SPUR INVESTMENTS INTO THESE AREAS, WHICH HAVE ATTRACTED ONLY BETWEEN 1 AND 1.5 PERCENT OF GERMAN PRIVATE CAPITAL FLOWS IN THE PAST. A CDU/CSU REQUEST TO INCREASE THE PERCENTAGE FOR THE ESTABLISHMENT OF TAX-FREE RESERVES FOR INVESTMENTS IN OTHER LDC'S FROM 40 TO 50 WAS TURNED DOWN BY MAJORITY VOTE.

3. OTHER POINTS OF THE GOVERNMENT PROPOSAL ACCEPTED BY THE BUNDESTAG WERE:

A. THE TAX-FREE RESERVES HAVE TO BE RELEASED AND TREATED AS PROFIT AFTER SIX YEARS IN ANNUAL RATES OF AT LEAST 1/6TH OF THEIR VALUE.

B. IF THE INVESTMENT PROJECT IS LABOR-INTENSIVE, I.E., IF IT GENERATES NEW JOBS, THE PERIOD OF RELEASE OF THE RESERVES CAN BE EXTENDED TO 1/12TH OF THEIR VALUE, ALSO STARTING 6 YEARS AFTER THE INVESTMENT.

C. THE 15 PERCENT SPECIAL DEPRECIATION ALLOWANCE PROVIDED UNDER PAST LEGISLATION IS OMITTED.

D. INVESTMENT IN THE FIELD OF TOURISM WILL NO LONGER BE PROMOTED THROUGH TAX INCENTIVES.

E. YUGOSLAVIA, RUMANIA AND KUWAIT HAVE BEEN ADDED TO THE LIST OF ELIGIBLE COUNTRIES. ALL LDC'S HAVE BEEN DIVIDED INTO TWO GROUPS: THE UN-DESIGNATED 25 LEAST DEVELOPED COUNTRIES PLUS BANGLADESH AND YEMEN (ADEN) ARE IN CATEGORY 1, ALL OTHERS IN CATEGORY 2.. INVESTMENTS IN CATEGORY 1 COUNTRIES ALLOW THE ESTABLISHMENT OF RESERVES OF 100 PERCENT OF THE PRODUCTION AND PROCUREMENT COST OF THE INVESTMENT, AND INVESTMENT IN CATEGORY 2 COUNTRIES RESERVES OF 40 PERCENT.

4. THE PARLIAMENTARY DELIBERATIONS WERE NOTABLY QUIET AND FACTUAL. ALTHOUGH THE OPPOSITION PARTIES CRITICIZED ABOVE ALL THE ELIMINATION OF THE SPECIAL DEPRECIATION ALLOWANCE AS A WATERING-DOWN OF THE UNCLASSIFIED

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PROMOTIVE EFFECT OF THE OLD LAW, AND ALTHOUGH THEY DISPARAGED THE LATE PASSAGE OF THE LAW ALMOST ONE YEAR AFTER THE EXPIRATION OF PAST LEGISLATION, THE FINAL APPROVAL IN THE BUNDESTAG WAS ALMOST UNANIMOUS, WITH ONLY ONE VOTE REJECTING THE NEW VERSION OF THE LAW.

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